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Dichotomy Between U.S. Tobacco Export Policy
and Antismoking Initiatives

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Before the
Subcommittee on Health and the Environment
Committee on Energy and Commerce

House of Representatives

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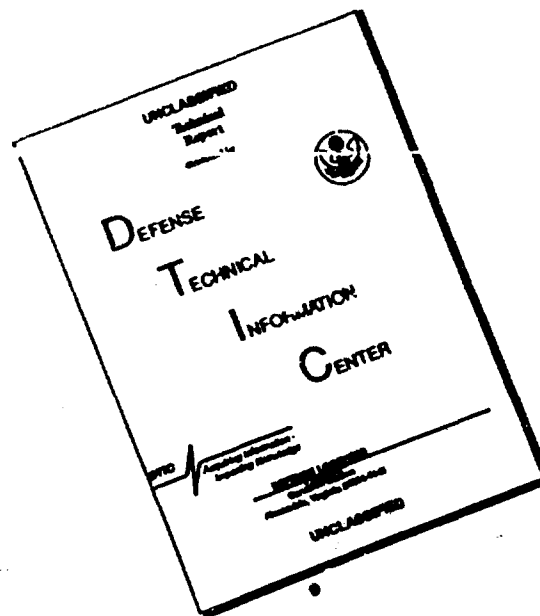
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Dear Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss with you the results of our work on the role of the U.S. government in helping the export of tobacco and tobacco products and the health related implications of these activities.¹ In recent years, the U.S. Trade Representative (USTR) has been successful in negotiating removal of unfair foreign trade barriers that had restricted the export of U.S. cigarettes. Despite the fact that the cigarette cases meet current trade policy criteria, USTR's efforts to remove the trade barriers are controversial because of the health risks associated with smoking.

Our examination was undertaken at the request of the Chairman of the House Subcommittee on Health and Environment, Committee on Energy and Commerce; the Chairman of the House Subcommittee on Health, Committee on Ways and Means; and other Members of Congress.

PRINCIPAL FINDING

In some ways, a policy level conflict exists between U.S. trade goals and health policy objectives in regard to the export of tobacco products. On the one hand, federal resources are used to facilitate the export of U.S. cigarettes, while on the other hand,

¹TRADE AND HEALTH ISSUES: Dichotomy Between U.S. Tobacco Export Policy and Antismoking Initiatives (GAO/NSIAD-90-190, May 15, 1990)

the federal government has directed a major domestic anti-smoking effort and is a participant in the international anti-smoking movement.

BACKGROUND

U.S. cigarette companies had tried for many years to expand their sales to Japan, South Korea, Taiwan, and Thailand, whose markets were substantially closed to cigarette imports. Smoking is legal in these countries, however, imports were kept out by high tariffs, discriminatory taxes, and discriminatory marketing and distribution restrictions. Domestic demand was largely satisfied by cigarettes produced by national monopolies. After generally unsuccessful efforts to gain access to those markets, the U.S. cigarette companies sought the assistance of the U.S. Trade Representative (USTR) under section 301 of the Trade Act of 1974, as amended, in eliminating the unfair trade barriers to U.S. cigarette exports.

Access to these markets, which promises great sales growth potential, is important to the U.S. cigarette companies because of the significant and steady decline in U.S. cigarette consumption. Since 1981 U.S. domestic consumption of cigarettes has fallen by 17 percent. In 1989, alone, there was a 5 percent decline.

Statistics show that the prevalence of smoking in Japan, Taiwan, and South Korea is higher than in the United States. While the

smoking rate in Japan has gradually declined, cigarette consumption in Taiwan and South Korea has increased since the removal of barriers to U.S. cigarette exports. Socioeconomic factors, such as rapid rises in disposable income and more women entering the work force, are generally considered to have played a role in increasing cigarette use in certain Asian countries. In addition, cigarette advertising and promotional activities have increased in terms of volume and sophistication, in some of the markets that have been opened. Concurrent with the success of U.S. market access efforts there has been an increased awareness in Asia of the health consequences of smoking and the growth of anti-smoking groups.

Exports are also important to U.S. farmers because tobacco is their sixth largest cash crop and 85 percent of tobacco is used in the manufacture of cigarettes. Despite reduced domestic cigarette consumption, tobacco production has increased to meet growing export demand. In 1989, the U.S. tobacco and tobacco product trade surplus was \$4.3 billion, up from \$2 billion in 1986.

At the same time that the U.S. government has worked to open foreign markets to U.S. cigarette exports, U.S. health agencies have supported programs with the objective of reducing the incidence of smoking. The Department and Health and Human Services' (HHS) Public Health Service has issued several Surgeon General's reports warning about the harmful effects of smoking. HHS is also directing a number of domestic anti-smoking efforts.

In addition, the United States participates on a multilateral level with the World Health Organization to support smoking prevention and health awareness programs throughout the world.

Thus, we have a situation in which one government body, USTR, negotiates for the removal of import restrictions on U.S. produced cigarettes as provided for by U.S. trade law. At the same time, another government body, HHS attempts to decrease the use of cigarettes in the United States and abroad. This circumstance reflects a contradiction at the policy level between U.S. trade policy and U.S. health policy.

TRADE IN TOBACCO PRODUCTS

As mentioned above, the United States has a growing trade surplus in tobacco and tobacco products. This improvement reflects a number of factors, including the help U.S. exporters received in recent years in overcoming foreign trade barriers, and the support provided to tobacco exports by three federally funded market development programs. They are the Cooperator Market Development Program, the Targeted Export Assistance Program, and the Export Credit Guarantee programs.

U.S. Trade Representative officials maintain that because cigarettes are legally sold in the United States and abroad, they should be treated no differently than other products in trade

negotiations. The Trade Representative's policy is that when petitioned by an industry with a legally sound complaint dealing with unfair trade practices, it must act on the petition. Cigarettes are a product that meets trade policy criteria for government assistance in overcoming unfair foreign trade barriers. U.S. cigarettes are competitive on world markets and potential exports are lost as a result of clearly recognized foreign government actions.

In its efforts to remove unfair foreign trade barriers, the U.S. Trade Representative did not appear to give preferential treatment to tobacco products over other items. However, it is difficult to quantify these efforts for comparison purposes because the U.S. Trade Representative pursues multiple cases concurrently and does not track time spent on individual cases.

Although the negotiations to remove foreign barriers to U.S. cigarette exports were sensitive, at this time, there seem to be no long-term adverse implications for U.S. relations with the four targeted countries.

HEALTH CONSIDERATIONS

The Surgeon General has determined that smoking is hazardous to health, and the U.S. government actively works to discourage smoking, both domestically and internationally. Over the past 25

years Congress has enacted a number of laws concerning the health hazards of cigarettes that include requiring health warnings on cigarettes, banning all cigarette television and radio advertising, and banning smoking on domestic airline flights.

The Department of Health and Human Services (HHS) has the lead role in the U.S. Government's efforts in the area of smoking and health. It chairs the statutorily established Interagency Committee on Smoking and Health which advises the Secretary of HHS on a wide range of these issues, including the international health implication of tobacco use. For example, at a recent World Conference on Tobacco and Health, the Assistant Secretary for Health made the keynote address which strongly criticized the marketing activities of transnational cigarette companies in developing countries.

The U.S. government supports the World Health Organization and its smoking prevention programs. Also, the Overseas Private Investment Corporation, a government agency, has made a policy decision to deny assistance to U.S. cigarette companies wishing to promote their enterprises overseas because of the adverse health effects of smoking.

Despite the government's active involvement in anti-smoking efforts, health issues were not considered during negotiations for the removal of foreign trade barriers to the export of U.S.

cigarettes. And, until recently, the Department of Health and Human Services has been discouraged from activities that linked health issues with U.S. cigarette exports. For example, in February 1988, the Interagency Committee on Smoking and Health attempted to hold an interagency meeting entitled "Tobacco Trade Policies." The Surgeon General, the chairman of the committee, invited representatives from the Departments of State, Commerce and Agriculture to speak on the health implications of recent U.S. efforts to open foreign markets to U.S. cigarettes. However, White House officials, some members of Congress, and USTR officials objected to the meeting, claiming that the Committee had no authorization to analyze a trade issue. Consequently, the meeting title was changed to "Tobacco and Health Internationally," and the representatives from State, Commerce, and Agriculture did not attend. In September 1989, the former Surgeon General testified at a USTR hearing on the Thailand cigarette petition, and was critical of U.S. tobacco trade policy because it does not include consideration of the health impact of that policy.

A high level HHS official informed GAO that the Department of Health and Human Services was invited to participate in the current market access case in Thailand and declined on the basis that it perceives cigarette export issues as a trade rather than a health matter, and that it had higher priority matters to attend to.

MATTERS FOR CONGRESSIONAL CONSIDERATION

The U.S. government role in helping the export of cigarettes and other tobacco products raises important policy issues. On the one hand, the government is committed to help U.S. exporters overcome unfair foreign barriers to the export of legal products. On the other hand, the U.S. government has determined that smoking is hazardous to health and is actively working to reduce smoking and the use of other tobacco products both domestically and abroad. Altering this circumstance requires a determination as to what policies should prevail.

If the Congress believes that trade concerns should predominate, then it should do nothing to alter the current trade policy process. The U.S. government can simultaneously continue to actively help U.S. cigarette exporters overcome foreign trade barriers and continue to promote awareness of the dangers of smoking and further restrict the circumstances in which smoking may take place.

If Congress believes that health considerations should have primacy, the Congress could grant the Department of Health and Human Services the responsibility to decide whether to pursue trade initiatives involving substantial adverse health consequences.

Alternatively, rather than having one policy dominate, the Congress could specifically require that health matters be included in the interagency trade policy process so that health issues receive some consideration on a case-by-case basis. Such a change would necessitate that the Department of Health and Human Services actively participate in the interagency trade policy decision making process.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions you may have.